



MANAGEMENT OF THE WORKING CAPITAL FUND

Problem:

Unlike private sector corporations, the mission of the Department of Defense (DoD) is not to earn a profit. In the absence of a profit motive, it is difficult for DoD to translate and adopt modern management tools to drive operational and financial improvements which are critical to the Secretary of Defense's transformation efforts. Despite the fact that approximately \$85 billion flowed through the Defense Working Capital Fund (DWCF) in 2003 (20% of DoD's direct appropriation dollars), there is a widespread lack of understanding about the Fund, leading to a perception by senior leadership that the Fund is not effectively or efficiently managed.

Response:

The Defense Business Board was formally tasked by the Under Secretary of Defense (Comptroller) in January, 2003, with the job of evaluating current management practices of the DWCF. The focus of the Task Group's efforts was on those areas in the DWCF with the most significant opportunities for improved management based on best business practices in the private sector.

In developing its recommendations, the Task Group met with its DoD Sponsor, Liaison and others in the Office of the Under Secretary of Defense (Comptroller) to gain an understanding of their views with respect to those areas of greatest management concern. These concerns focused primarily on leadership and accountability, performance incentives, training and job requirements, rate and budget development, metrics and financial reporting. The Task Group also met with key individuals with management responsibility for either operational performance or cash management for the Army, Navy, Air Force and Defense-wide funds.

Recommendations:

The Task Group concluded that, while misunderstood, the DWCF provides a strong vehicle for implementation of many transformation initiatives. The Group's specific recommendations were in two areas: Operations Management and Cash Management. Specific details of the program may be found in the DBB Report FY03-6 available at www.dod.mil/dbb. Key elements include:

- Create a single General Manager (civilian) for each fund (Army, Navy, Air Force, Defense-wide, Defense Commissary) and each business activity (supply, depot maintenance, etc.).
- Develop/implement a balanced scorecard for the DWCF using financial, operational and customer satisfaction measures.
- Standardize accounting and financial definitions and policies across all funds.
- Remove the extraordinary expense of system shutdowns from annual rates.
- Allow capabilities-based budgeting.
- Modify the rate development and budgeting processes to provide better visibility into customer demand before finalizing rates.
- Support Management Initiative Decision 903 initiatives in rate structure areas.

Action:

In October of 2003 these recommendations were endorsed by the Senior Executive Council and referred to the Principal Deputy Under Secretary of Defense for Management Reform for review and implementation as appropriate.

